4/24/86 G86-U1880-3

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MONTHLY PROJECTIONS
April 1986

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For Release: April 24, 1986

DEFLATION SHOULD VANISH WITH MAY FLOWERS

Plunging oil prices have left their mark upon the monthly price indices. The Producers Price Index has fallen sharply in January, February, and March and is expected to fall significantly again in April. The Consumer Price Index has fallen by 0.4% in February and March and should decline by a similar amount in April. Falling consumer prices are also possible in May. However, crude petroleum prices have stabilized at slightly over $13 per barrel for Louisiana crude. This means that other oil prices also will be stabilizing shortly.

Excluding oil, the inflation outlook has been mixed. A plunging dollar has increased inflationary pressures for some metals and for pharmaceuticals as drug companies shift their sales efforts to Europe. Sharply rising insurance rates have left their mark on medical fees, auto insurance, and general business costs. The sharp decline in mortgage rates has strengthened housing prices and also generated some increasing inflationary pressures for lumber products. Thus, inflation excluding the impact of oil prices has been sustained at a 3.5-4% range.

To be sure, the plunge in oil prices should continue to have some deflationary impact upon other sectors for some time to come. Falling oil prices directly lead to falling chemical feedstocks and to the major material used in plastics. In addition, energy is a heavy cost factor in transportation services, most metal production, and most nonmetallic minerals. Some price weakness has begun to surface in the plastics and chemicals, but more significant price declines still should be anticipated.

Moreover, falling inflationary pressures should lead to more moderate wage gains than originally projected. Wages should be growing only 4% in the next year. If the economy begins experiencing more industrial growth, productivity should begin rising in the second half of 1986. Therefore, unit labor cost should be rising only about 2.5% even in the latter part of this year. Even so, it appears that inflation will be returning to 4% before the end of the year and probably will be growing slightly in excess of that in 1987.

Clearly, yields on long-term government bonds are too low if inflation is to rebound to 4% following the plunge in oil prices. Yields between 7.5% and 8% appear to be justified by the inflationary environment. One of the puzzling results of plunging oil prices is the magnitude by which this temporary restraint on inflation has impacted yields on long-term interest rates relative to short-term rates. According to some economic theories, short-term changes in inflationary conditions should be reflected most dramatically in short-term yields. Yet, long-term government bond yields have decreased by nearly three percentage points while short-term rates have fallen by less than one percentage point over the past six months. Inflationary anticipations may have diminished dramatically, but, more likely, speculators have been following the downward trend of long-term government bonds and have bid the value of those bonds beyond what is justified by economic conditions. This may explain why unusually large spreads have developed between long-term government bonds and yields on other long-term government instruments. For example, the corporate AAA bond is currently yielding nearly 1.5 percentage points more than the long-term government instrument. Historically, a 0.4 percentage point gap between the two yields is normal. Indeed, if other long-term instruments maintain their current yields, the long-term government bond would need to re-establish yields of nearly 8% before traditional spreads reappear.

In the past few weeks interest rate weakness has developed for short-term instruments. The commercial paper rate fell dramatically below rates for federal funds and even below yields on certificates of deposit. The weakness in commercial paper appears to be directly related to the reduced need to use paper to finance oil inventories. This weakness in borrowing needs was anticipated in our previous report. This plunge in borrowing needs should subside now that crude oil prices appear to be stabilizing. Thus, downward pressures upon short-term interest rates should begin dissipating toward the end of May.

Preliminary estimates of GNP for the first quarter were more sluggish than expected as a result of downward revisions in inventory holdings. Also, the estimated GNP deflator was stronger than expected, although the preliminary GNP estimates may overstate prices in the consumer sector for March. Thus, a downward adjustment in the deflator should more than offset any downward adjustment in trade balances that may materialize. However, plunging oil prices corresponded with plunging oil imports during the first quarter. Therefore, the trade balances estimated by the Department of Commerce may be close to actual outcomes.

Economic activity was still surprisingly weak in March, but inventory rebuilding is expected to resume in non-auto manufacturing during the second quarter. This inventory gain should be more than sufficient to offset moderate inventory liquidations in the automobile sector. At the same time, fixed investment should increase significantly following a decline in the winter months. Apparently, some investors accelerated shipments of investment goods into the fourth quarter of 1985 to ensure the tax deductibility for investment tax credits. This left a period of weak shipments early in 1986 that are now coming to an end.

As expected, inventory profits vanished in the first quarter. Following a $10.6 billion increase in inventory profits during the fourth quarter, prices of inventories generated inventory losses of $13.8 billion in the first three months of 1986. This will cause after-tax corporate profits to fall more than 6% in the first quarter. However, operating profits should increase by more

than 10% at annual rates. This significant increase in operating profits along with already registered declines in interest rates, suggests that stock market values can continue to rise through the second quarter. However, the outlook for rising inflationary pressures, upward pressures upon interest rates, and little further growth in operating profits after the summer months all suggest that stock prices will be trending downward during the second half of 1986.

Quarterly Profile of GNP

	1985-4	1986-1	1986-2	1986-3	1986-4	1987-1	1986 Annual
Real:	0.7	3.2	4.2	4.7	2.1	2.6	2.9
Price:	3.3	2.5	-0.4	3.2	3.5	4.1	2.4
Nominal:	4.3	5.8	3.7	8.0	5.7	6.9	5.3

Monthly Statistical Highlights for April 1986

Payroll employment +188,000; index of hours worked +0.2%; household employment +236,000; civilian unemployment rate 7.2%; personal income +0.5%; savings rate 4.4%; personal consumption +0.4%; retail sales +0.1%; auto sales 9.8 million; housing starts +2.9%; housing permits +0.6%; construction expenditures +0.9%; business inventories +0.1%; orders for durable goods -0.6%; orders for nondefense capital goods +5.6%; industrial production +0.2%; CPI -0.4%; PPI -0.3%; consumption deflator -0.1%; leading indicators +0.3%; real GNP +3.7%; M1 +8.6%; M2 +7.2%.

Monthly Statistical Highlights for May 1986

Payroll employment +238,000; index of hours worked +0.2%; household employment +256,000; civilian unemployment rate 7.1%; personal income +0.5%; savings rate 4.3%; personal consumption +0.6%; retail sales +0.5%; auto sales 10.0 million; housing starts -0.3%; housing permits -1.7%; construction expenditures 0.0%; business inventories +0.1%; orders for durable goods +0.5%; orders for nondefense capital goods -1.0%; industrial production +0.3%; CPI +0.2%; PPI +0.2%; consumption deflator +0.2%; leading indicators +0.2%; real GNP 3.0%; M1 +4.2%; M2 +6.2%.

COMMENTARY

Employment - For the second consecutive quarter, the index of hours worked grew at a faster rate than estimated GNP. This means that productivity fell slightly in the winter following a significant decline in the fall. Some of the problems associated with productivity appear to be related to more rapid expansion in retail space and employment than in retail sales volumes. In addition, shifts in composition away from high productivity industries to lower productivity industries has created some of this discrepancy between output and labor input.

Payroll employment increased less than anticipated in March as a result of a greater impact from plunging oil exploration than had been anticipated. In addition, automobile production began declining in order to reduce inventories to levels that are considered desirable within the industry. Initial

unemployment claims have increased slightly as a result of weakness in the southwest and the unemployment rate for insured personnel increased to 2.9%. This is consistent with the 7.2% unemployment rate that prevailed in March. The hourly earnings index remains moderate, showing increases of only 2.9% from the previous year. In the past six months, there has been no acceleration in earnings per hour worked.

Personal Income & Outlays - An upward revision in the nondurable component of retail sales led to an upward revision in consumption outlays. This was a major revision that did not alter the quarter-by-quarter growth rate but significantly increased overall consumption relative to income. As a result, nearly a percentage point was reduced from the prevailing savings rate.

As expected, the apparent sluggishness in personal consumption expenditures is largely the result of declining prices. Indeed, this surge in nondurable spending in March as a result of strong department store and apparel sales was especially robust once declining gasoline prices are also considered. Claims that the consumer has not yet begun to support this economy are clearly exaggerated. Our estimates for March suggest that consumption after price adjustments has increased nearly $35 billion within the quarter. Strong consumer gains almost certainly will persist in the second quarter. This is especially likely as automobile dealer incentives have reappeared and auto sales activity has begun to increase.

The booming stock market has created some upward biases in service expenditures as a result of a surge in commission payments. Therefore, the service sector will not be able to sustain the rapid first quarter rates of growth later in the year. By that time, however, improving auto sales will aid purchases of durable goods. Consumer spending after adjustment for price changes probably will grow nearly 4% in 1986.

As gasoline prices will continue to fall in April, and as the vigorous growth in apparel sales probably will slow in that month, retail sales should continue to show a sluggish pattern before inflation adjustment. However, price adjustments suggest that consumer expenditures will be growing at a real annual rate of nearly 7% in April. This certainly is vigorous consumer growth that will be totally misinterpreted when a nearly unchanged retail sales figure is announced for the month.

Early in the quarter, disposable income showed a rapid rate of growth because the indexation of tax codes was included in the January tax liability estimates. This indicated a sharp decrease in tax liability in January. Significant declines in tax liabilities are not anticipated for the remainder of the year. Personal in March was significantly reduced by a sharp decline in farm subsidies. Such subsidy declines are not expected to continue in the remainder of this year. However, a falloff in interest income should continue through the spring. Thus, personal income probably will be growing more slowly than wage income until the second half of 1986.

Construction - The weakness in the southwest will have a more substantial adverse effect upon housing than originally anticipated. Nevertheless, declining mortgage rates should generate slightly more than 1.2 million single-family starts in 1986. Both the absence of further mortgage rate declines late in the year and the absence of any pent-up demand should cause starts to fade into 1987. Multi-family starts are showing a pattern similar to 1985. Permits

and activity are especially vigorous early in the year hoping that buildings can be placed on the tax rolls before adverse tax changes materialize. Later in the year, starts are expected to decline sharply. Estimates of permit activity should reflect this pattern. The surge in residential activity early this year will lead to sharp gains in expenditures for residential construction through July. In addition, increased housing demand is leading to increased lumber prices that will add to construction costs. Later in the year, however, orders for nonresidential construction activity should diminish. Toward the end of the year, overall expenditures should plateau. As a result, construction should decline moderately by the end of 1986.

Business Activity - Orders for commercial aircraft are substantially distorting the pattern of orders for nondefense capital goods. In March, the absence of large commercial orders caused a significant decline in that measure. In April, commercial aircraft should reappear. Then another decline is expected in May. However, the trend for nondefense capital goods orders should be upward. This should lead to a significant increase in shipments following the tax distorted slump in shipments in the first two months of 1986. Fixed investment, therefore, will perform more strongly in the middle quarters of 1986 than early in the year.

Defense orders also are jumping wildly. Some defense shipments should rebound now that order backlogs are increasing. Nevertheless, shipments have lagged sufficiently far behind previous anticipations that they will not be able to reach forecasted values in the next 12 months.

Sharply declining prices for petroleum products are being reflected in business inventories and sales reports. Until those prices stabilize, the dollar value of business inventories should show little change. By June, however, inventories are expected to re-accelerate.

Weakness in industrial production is heavily concentrated in mining and in automobile assemblies in March. Now that automobiles are being assembled domestically at a 7.7 million rate and sales have begun drifting toward that rate, only moderate further weakness in production of consumer goods is anticipated in the next few months. Business equipment should increase significantly while materials production also should rise. Therefore, the lag in industrial production behind forecasted values, which materialized early in 1986, should disappear by the end of the year.

Prices - Now that crude petroleum prices appear to have stabilized, declines in product prices for petroleum should soon stabilize as well. Deflation probably will come to an end with one last big plunge in the April CPI. However, a modest price decline in May also is likely. At the same time, the administration's proposal for slaughtering dairy cattle has created weakness in the meat sector as livestock raisers hustle to sell their animals prior to their dairy slaughter glut. This will generate lower meat prices than had previously been anticipated. As a result, prices during the summer are not expected to rebound as sharply as originally feared. Nevertheless, inflation will reappear in excess of 3% during the second half of 1986. By 1987, the inflation rate should exceed 4%.

Miscellaneous - Leading indicators generally benefit from rising stock prices and rising real money balances from a plunging CPI. Once interest rates stabilize, these financial variables no longer are expected to propel the leading

indicators upward. Current estimates, which are based upon slightly declining stock prices in the second half of 1986, declining building permits, little change in initial unemployment claims, and only small increases in real money balances, leads to relatively trendless patterns after the spring.

Because of the plunge in oil prices, the IVA has reversed dramatically from a significant inventory profit late in 1985 to a large inventory loss in March. This swing of almost $42 billion also reflects the swing in commercial paper financing necessary to support an unchanged volume of inventories. Short-term interest rate pressures were diminishing at their maximum rate late in the first quarter. They still are diminishing, but the rate of decline has slowed substantially. Therefore, short-term interest rates may begin pressing upward before the end of spring.

Finally, the merchandise trade balances have been adjusted to remove seasonal influence and to capture adjustments reported in terms of processing delays. The downward trend in the trade deficit is the result of reduced oil prices rather than any significant influence at the present time from declining values of the dollar. As the dollar has continued to diminish in value, foreign exchange-related changes in trade flows should begin materializing in the latter part of 1986.

FINANCIAL MARKETS

Virtually all our indicators of interest rate movements suggest that rates should be falling into the spring months. Corporate borrowings are falling significantly as a result of reduced inventory financing needs, investment activity remains subdued, housing activity has increased but not sufficiently to offset diminished borrowings from the corporate sector, while government is showing little change in its borrowing needs. However, economic activity is expected to increase late in the spring along with prices. As prices rise, more financing will be needed to support inventories. Therefore, interest rates should begin trending upward in the summer months.

Our current estimates suggest that interest rates could fall further as Secretary Baker tries one more time to establish coordinated declines in interest rates by all major industrial powers. However, domestic interest rate prssures should surface even before the spring is over. For that reason, investments in long-term government bonds probably have no capital gains potential at the present time. While capital gains potential also is relatively modest for the corporate and tax exempt markets, investments there still may be justified because of the wide yield differentials that exist between those instruments and the government securities.

Although these projections suggest that another decline in the discount rate along with another cut in the prime rate may materialize by June, any further benefits from declining short-term interest rates are expected to vanish late in the year. Because of this abrupt anticipated turnaround in short-term rates, that last decline in the prime rate may never materialize.

Equity Markets

The first quarter GNP estimates showed slightly less nominal GNP growth than anticipated, but not enough to significantly alter our estimates of operating profits after tax liabilities for 1986. These profits are expected to rise about 12%. Interest rates in 1986 as measured by the corporate AAA should be about 35% less than in 1985. Equity values should rise in excess of 45% from 1985 levels. This suggests that the Dow Jones could exceed 2000, but most of this improvement should materialize by the end of the spring. In the second half of 1986, interest rates may be trending upward. In addition, economic growth may slow. As a result, operating profits less tax liabilities in 1987 may show minimal growth. Thus, the stock market will have to decide whether economic conditions in 1987 warrant further advances. If our above analysis is correct, stock market values should average slightly lower in 1987 than in 1986. Therefore, a decline in the stock market could begin before the end of summer and persist until any recessionary fears concerning 1987 have either dissipated or been realized.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	98559	98559	117.4	117.4	107813	107813	7.1	7.1	166.4	166.4
November	98739	98801	117.5	117.6	107969	107969	7.0	7.0	167.1	167.1
December	99059	99086	118.3	118.1	108206	108206	6.9	6.9	168.4	168.4
January 1986	99274	99496	118.6	119.1	108592	108955	6.8	6.7	169.2	167.4
February	99553	99649	119.0	118.5	108806	108561	6.9	7.3	170.0	168.4
March	99835	99841	119.4	118.9	109074	108788	6.7	7.2	170.9	168.8
April	99986	100029*	119.5	119.2*	109265	109024*	6.6	7.2*	171.2	169.2*
May	100184	100267	119.7	119.5	109532	109280	6.6	7.1	171.4	169.5
June	100380	100584	120.0	119.8	109799	109568	6.5	7.0	171.7	169.8
July	100617	100851	120.3	120.2	110013	109820	6.6	6.9	172.3	170.2
August	100872	101093	120.6	120.5	110184	110106	6.6	6.9	172.9	170.6
September	101127	101343	120.9	120.7	110329	110387	6.7	6.9	173.5	171.1
October	101256	101611	120.8	121.0	110483	110689	6.6	6.8	174.0	171.6
November	101403	101777	121.0	121.2	110729	110919	6.5	6.8	174.3	172.2
December	101382	101961	120.9	121.4	110843	111122	6.6	6.8	174.7	172.7
January 1987	101559	102153	121.2	121.6	111019	111337	6.5	6.8	175.6	173.3
February	101791	102320	121.5	121.7	111238	111522	6.5	6.8	176.5	173.9
March	102030	102411	121.8	121.8	111442	111642	6.5	6.9	177.3	174.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	3.331	3.331	1.991	1.992	127.8	120.0	2.825	2.826	2.698	2.706
November	3.347	3.348	2.003	2.004	120.3	120.4	2.838	2.840	2.717	2.719
December	3.394	3.384	2.025	2.022	106.1	105.3	2.879	2.872	2.773	2.767
January 1986	3.396	3.387	2.035	2.027	107.9	124.7	2.888	2.882	2.780	2.758
February	3.418	3.401	2.048	2.034	118.8	125.7	2.907	2.896	2.788	2.771
March	3.440	3.407	2.062	2.044	149.8	122.9	2.926	2.904	2.776	2.781
April	3.455	3.424*	2.071	2.056*	144.3	127.0*	2.937	2.919*	2.793	2.792*
May	3.471	3.442	2.079	2.066	134.7	126.2	2.949	2.935	2.815	2.808
June	3.487	3.459	2.088	2.077	122.7	124.6	2.962	2.949	2.839	2.824
July	3.505	3.473	2.100	2.090	118.5	120.6	2.973	2.959	2.855	2.838
August	3.522	3.494	2.112	2.102	123.1	123.9	2.985	2.976	2.862	2.852
September	3.539	3.515	2.125	2.113	117.8	124.1	2.997	2.993	2.879	2.869
October	3.558	3.536	2.132	2.126	120.7	128.7	3.011	3.010	2.890	2.881
November	3.578	3.556	2.139	2.138	118.8	127.9	3.027	3.026	2.908	2.898
December	3.599	3.575	2.146	2.150	114.0	123.5	3.044	3.040	2.930	2.917
January 1987	3.607	3.586	2.160	2.162	145.4	129.5	3.089	3.061	2.944	2.932
February	3.631	3.604	2.174	2.173	150.2	129.8	3.112	3.078	2.961	2.948
March	3.656	3.623	2.199	2.185	154.8	132.0	3.134	3.095	2.979	2.963

C.E. = Current Expectations

* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	2603.1	2611.1	348.2	355.7	926.0	926.0	1328.9	1329.3	2301.6	2319.9
November	2621.7	2623.6	353.9	357.2	926.5	925.3	1341.3	1341.1	2303.8	2319.2
December	2675.1	2669.8	375.7	373.0	935.7	933.5	1363.7	1363.3	2342.5	2352.1
January 1986	2681.6	2659.6	380.5	368.8	939.6	933.9	1361.5	1356.9	2352.3	2337.3
February	2687.7	2671.5	378.2	364.0	941.3	935.0	1368.2	1372.5	2359.7	2357.5
March	2673.7	2680.8	357.9	354.4	940.0	948.6	1375.8	1377.8	2345.4	2374.4*
April	2689.5	2691.2*	365.6	357.0*	941.2	947.5*	1382.7	1386.7*	2351.0	2387.7
May	2709.8	2706.6	368.1	359.4	947.9	951.9	1393.8	1395.3	2358.4	2394.2
June	2733.0	2721.8	370.7	361.4	957.3	956.8	1405.0	1403.6	2370.3	2401.5
July	2746.7	2734.9	373.5	361.0	959.6	961.6	1413.6	1412.3	2376.0	2406.6
August	2752.6	2747.7	377.2	360.4	955.3	965.9	1420.1	1421.4	2375.0	2409.9
September	2768.7	2763.6	380.9	363.7	961.5	969.6	1426.3	1430.3	2382.7	2417.3
October	2778.3	2775.0	376.2	362.9	966.3	972.6	1435.8	1439.5	2380.7	2419.5
November	2794.5	2790.2	375.8	364.7	971.4	976.8	1447.3	1448.7	2386.4	2424.7
December	2815.0	2808.0	378.7	368.1	976.9	982.4	1459.4	1457.5	2395.7	2431.3
January 1987	2827.6	2822.1	380.6	369.5	980.8	985.9	1466.2	1466.7	2396.3	2434.4
February	2843.8	2837.9	382.8	370.3	984.0	991.3	1477.0	1476.3	2399.8	2438.8
March	2860.2	2851.8	385.1	371.1	987.3	994.8	1487.8	1485.9	2405.6	2441.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	114.86	114.79	17.37	17.29	9.6	9.6	72.94	72.43	24.55	25.07
November	115.62	115.43	17.39	17.34	9.8	9.8	73.40	72.80	24.83	25.29
December	117.86	116.86	17.79	17.72	11.5	11.5	73.83	72.98	26.24	26.16
January 1986	119.05	117.35	18.02	17.86	11.5	11.5	74.20	73.16	26.83	26.33
February	118.51	117.45	18.22	17.97	11.0	10.6	74.33	73.57	25.96	25.91
March	116.62	116.56	17.92	18.07	9.3	9.7	74.23	73.46	24.47	25.02
April	117.22	116.62*	18.12	18.20*	9.4	9.8*	74.32	73.22*	24.78	25.20*
May	118.04	117.26	18.16	18.26	9.6	10.0	74.85	73.56	25.03	25.44
June	119.09	117.88	18.09	18.41	9.9	10.0	75.59	73.94	25.41	25.53
July	119.60	118.20	18.26	18.53	10.0	9.9	75.77	74.31	25.57	25.36
August	119.60	118.46	18.34	18.64	10.3	9.8	75.44	74.64	25.82	25.18
September	120.41	119.30	18.56	18.71	10.3	10.2	75.92	75.08	25.93	25.51
October	120.44	119.43	18.72	18.79	9.7	9.8	76.30	75.31	25.42	25.33
November	120.81	119.98	18.79	18.86	9.6	9.9	76.71	75.64	25.31	25.48
December	121.58	120.83	18.49	19.03	9.9	10.1	77.14	76.07	25.95	25.73
January 1987	122.11	121.27	18.52	19.15	10.0	10.1	77.45	76.34	26.14	25.78
February	122.62	121.78	18.61	19.17	10.1	10.0	77.70	76.76	26.31	25.85
March	123.15	122.15	18.69	19.25	10.2	10.0	77.96	77.03	26.50	25.87

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	1.772	1.784	1.120	1.118	1.688	1.688	346.3	344.5	204.8	202.2
November	1.566	1.654	0.961	1.006	1.661	1.661	348.1	343.8	206.2	200.9
December	1.840	1.804	1.113	1.087	1.844	1.873	349.4	351.7	206.9	205.0
January 1986	1.869	2.034	1.182	1.335	1.792	1.899	353.8	356.1	209.0	206.9
February	1.854	1.997	1.106	1.204	1.726	1.803	356.2	360.5	210.1	209.2
March	1.838	1.949	1.111	1.212	1.695	1.846	359.1	367.2*	211.7	212.5*
April	1.808	2.006*	1.107	1.242*	1.652	1.857*	360.0	370.5	211.8	213.9
May	1.801	1.999	1.103	1.256	1.629	1.826	360.2	370.5	211.1	213.3
June	1.796	1.969	1.099	1.243	1.634	1.803	361.4	372.0	211.2	213.5
July	1.743	1.932	1.076	1.221	1.596	1.765	363.9	374.4	212.1	214.3
August	1.718	1.876	1.082	1.208	1.543	1.742	366.2	373.6	212.9	213.4
September	1.701	1.874	1.085	1.211	1.542	1.728	368.4	372.2	213.7	212.2
October	1.673	1.841	1.093	1.193	1.492	1.711	368.4	372.7	212.9	211.8
November	1.651	1.807	1.109	1.169	1.491	1.652	368.5	372.5	212.0	211.0
December	1.668	1.779	1.122	1.162	1.490	1.609	368.8	371.5	211.3	209.9
January 1987	1.681	1.763	1.139	1.143	1.517	1.613	369.9	370.7	211.4	208.8
February	1.689	1.754	1.146	1.152	1.543	1.619	370.2	369.0	210.9	207.3
March	1.697	1.747	1.152	1.159	1.554	1.605	370.7	371.7	210.7	208.2

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	132.1	131.2	63.6	62.4	150.6	150.9
November	133.4	131.6	64.5	62.6	150.3	149.7
December	134.3	136.2	65.1	64.8	150.0	150.7
January 1986	134.6	135.4	66.3	68.1	152.9	152.6
February	133.9	137.8	67.4	66.9	154.9	155.8
March	133.9	138.6*	68.2	67.3*	157.0	161.3*
April	134.7	139.2	68.3	67.7	157.0	163.6
May	135.6	140.3	68.0	67.9	156.6	162.3
June	136.4	140.8	67.7	68.4	157.3	162.8
July	136.3	141.3	68.7	68.7	158.9	164.4
August	136.8	141.9	69.4	68.5	160.0	163.2
September	137.2	142.2	70.0	68.9	161.2	161.1
October	138.1	142.5	69.5	69.2	160.8	161.0
November	139.0	142.1	69.0	69.5	160.5	160.9
December	139.9	140.9	68.4	69.8	160.5	160.8
January 1987	140.0	140.8	69.0	70.0	160.9	159.9
February	140.0	140.3	69.7	70.3	160.5	158.4
March	139.6	140.5	70.3	70.5	160.8	160.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	282.4	282.4	104.50	104.50	27.09	27.09	27.72	27.72
November	281.8	282.0	103.78	103.80	25.79	25.79	27.77	27.77
December	282.1	281.9	108.16	107.53	31.36	30.57	29.53	28.63
January 1986	282.9	280.4	106.19	108.46	28.42	24.55	29.03	25.60
February	283.7	279.5	106.93	107.82	28.65	28.91	28.96	26.86
March	284.9	278.7*	107.53	105.07	29.13	27.02	29.11	27.82
April	286.2	279.0	107.27	104.42*	29.10	28.53*	29.15	27.75*
May	287.3	279.9	106.78	104.96	28.66	28.24	29.07	28.13
June	288.3	281.5	107.08	104.78	28.93	28.52	29.08	28.42
July	289.5	282.3	107.46	106.23	29.17	28.89	29.12	28.69
August	290.8	283.1	108.13	107.15	29.25	29.43	29.15	28.84
September	292.0	284.4	107.92	107.64	29.02	29.46	29.14	29.07
October	293.5	285.8	107.43	107.26	28.86	29.35	29.12	29.15
November	295.4	286.7	107.16	107.19	28.72	29.16	29.18	29.21
December	297.4	288.1	106.92	108.13	28.78	29.20	29.23	29.28
January 1987	299.2	288.7	106.85	108.44	28.53	29.35	29.09	29.46
February	300.8	290.5	107.11	107.53	28.66	28.89	28.92	29.43
March	302.4	291.3	107.02	107.26	28.51	28.74	29.06	29.36

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	582.2	582.2	7.67	7.67	124.4	124.4	79.8	79.8
November	583.4	582.8	7.86	7.86	125.1	125.4	80.1	80.3
December	584.6	583.2	7.87	7.94	126.0	126.4	80.5	80.7
January 1986	585.1	585.0	7.95	7.03	126.8	126.6	80.8	80.7
February	587.6	585.1	8.10	7.58	127.0	125.7	80.8	80.0
March	589.7	586.4*	8.23	7.27	127.2	125.1	80.7	79.4
April	591.4	586.7	8.30	7.48*	127.5	125.4*	80.7	79.5*
May	594.5	587.4	8.33	7.63	127.8	125.9	80.7	79.6
June	597.4	590.2	8.37	7.74	128.1	126.5	80.7	79.8
July	599.1	592.5	8.46	7.86	128.2	126.9	80.6	79.9
August	601.5	595.5	8.57	7.97	128.3	127.3	80.4	80.0
September	603.8	596.6	8.69	8.05	128.5	127.8	80.3	80.1
October	606.4	599.9	8.65	8.01	128.7	128.3	80.2	80.2
November	610.7	602.5	8.60	8.13	128.8	128.6	80.0	80.2
December	615.5	604.8	8.61	8.23	128.7	128.9	79.7	80.2
January 1987	619.4	608.0	8.72	8.32	128.9	129.0	79.6	80.1
February	622.8	611.0	8.81	8.40	128.8	129.3	79.3	80.0
March	626.0	614.6	8.89	8.49	128.9	129.4	79.2	79.8

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	324.6	324.9	294.4	294.4	324.4	324.2	112.7	112.5
November	326.2	326.7	296.7	296.7	325.0	325.0	113.0	113.0
December	327.8	327.9	297.9	298.3	325.2	325.2	113.2	113.5
January 1986	328.7	329.0	297.3	296.3	323.9	324.0	113.6	113.9
February	328.6	327.7	296.9	291.7	322.5	319.4	113.9	113.8
March	329.1	326.4	296.6	288.6	321.2	314.0	114.2	113.4
April	330.3	325.7*	296.9	288.1*	321.8	314.2*	114.4	113.3
May	331.5	326.3	297.1	288.7	322.2	314.6	114.7	113.6
June	332.7	327.2	297.8	289.3	322.5	315.1	115.0	113.9
July	333.4	328.1	298.4	290.0	322.9	315.9	115.3	114.2
August	334.1	329.2	298.9	290.9	323.2	316.8	115.6	114.5
September	334.8	330.1	299.4	291.7	323.2	314.9	115.9	114.8
October	336.1	331.2	299.9	292.6	323.9	317.7	116.3	115.1
November	337.4	332.4	300.5	293.8	324.8	318.4	116.6	115.5
December	338.7	333.5	301.2	294.6	325.7	319.3	117.0	115.9
January 1987	340.2	334.5	302.0	295.3	326.5	320.1	117.4	116.3
February	341.7	335.9	302.9	296.2	327.0	321.0	117.9	116.6
March	343.3	337.0	303.8	296.9	327.6	321.8	118.3	117.1

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	113.1	112.5	104.7	104.3	108.8	108.3	118.7	118.3	169.0	170.4
November	113.8	113.1	105.2	104.4	109.1	109.1	119.1	118.8	168.8	171.2
December	114.2	113.5	105.6	104.5	109.9	109.8	119.6	119.1	168.9	171.6
January 1986	114.0	113.8	105.0	104.9	109.8	109.8	119.9	119.5	169.3	172.1
February	113.9	113.3	104.7	105.0	109.5	108.1	120.2	119.8	169.5	172.3
March	114.0	112.9*	104.5	105.0*	109.5	106.4*	120.5	120.3*	169.6	172.8*
April	114.4	112.7	104.7	105.3	109.7	105.3	120.9	120.7	170.0	173.2
May	114.9	113.0	104.9	105.5	109.9	105.5	121.6	121.2	170.6	173.7
June	115.3	113.3	105.1	105.7	110.1	105.8	122.2	121.5	171.1	174.2
July	115.6	113.6	105.3	105.9	110.3	106.0	122.8	121.9	171.6	174.7
August	115.9	114.0	105.5	106.0	110.4	106.3	123.2	122.4	172.0	175.1
September	116.2	114.3	105.7	106.0	110.5	106.5	123.6	122.9	172.4	175.4
October	116.7	114.7	106.0	106.3	110.9	106.8	124.1	123.3	173.0	176.0
November	117.1	115.1	106.2	106.5	111.5	107.1	124.8	123.8	173.8	176.5
December	117.5	115.5	106.4	106.7	112.0	107.4	125.5	124.4	174.5	177.0
January 1987	118.0	115.9	106.5	106.9	112.3	107.7	126.0	125.0	175.0	177.5
February	118.5	116.4	106.7	107.2	112.5	108.1	126.5	125.5	175.5	178.0
March	118.9	116.8	105.9	107.5	112.7	108.4	127.1	126.1	175.9	178.5

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	-11.47	-14.01	171.3	171.2	4030	4028	3576	3578	-6.2	-6.2
November	-13.68	-12.81	171.5	171.5	4058	4052	3591	3586	-9.7	-11.2
December	-16.57	-14.91	173.6	174.1	4097	4098	3619	3608	-14.6	-14.7
January 1986	-14.93	-14.42	173.0	174.1	4133	4116	3638	3614	-0.6	0.8
February	-14.21	-12.49p	172.6	175.4	4154	4115	3647	3616	4.3	13.3
March	-11.59	-11.63*	173.0	176.4*	4176	4118	3657	3630	14.0	27.9
April	-13.29	-11.29	173.4	177.0	4198	4126	3670	3642	12.1	20.4
May	-13.85	-12.13	173.3	177.3	4215	4147	3675	3651	6.0	12.3
June	-13.26	-12.42	173.8	177.1	4233	4189	3681	3678	2.3	5.6
July	-13.46	-11.92	173.5	176.4	4254	4212	3690	3688	-1.0	2.3
August	-13.35	-11.78	173.2	177.0	4274	4240	3697	3703	-1.8	0.5
September	-13.23	-11 59	172.8	177.3	4295	4253	3706	3705	-1.9	-1.6
October	-13.69	-11.67	172.9	177.0	4319	4271	3714	3711	-4.7	-3.9
November	-13.49	-11.52	172.5	176.5	4346	4296	3727	3719	-9.3	-7.8
December	-13.28	-11.27	172.8	176.6	4375	4316	3739	3724	-14.2	-10.4
January 1987	-13.07	-10.96	172.5	176.0	4396	4349	3744	3739	-12.6	-5.3
February	-12.98	-10.88	171.6	175.5	4414	4363	3744	3742	-10.7	-7.8
March	-12.88	-10.99	171.4	175.6	4433	4387	3747	3746	-8.9	-9.5

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	231.3	232.0	611.1	614.2	2532.8	2538.3	7.99	7.99	7.33	7.33
November	232.7	233.0	617.9	620.1	2546.8	2550.7	8.05	8.05	7.30	7.30
December	235.0	234.8	624.5	626.6	2563.1	2565.5	8.27	8.27	7.09	7.09
January 1986	236.5	235.8	627.3	627.2	2582.7	2568.5	8.06	8.14	7.10	7.16
February	237.0	237.8	629.2	631.0	2603.5	2576.3	7.96	7.86	7.08	7.11
March	237.6	239.0	631.0	638.4	2624.1	2590.4	7.85	7.48	7.06	6.57
April	239.2	240.3*	633.7	642.8*	2636.7	2605.4*	7.53	7.07*	6.92	5.99*
May	240.9	241.4	636.2	645.0	2648.5	2618.4	7.42	6.63	6.89	5.73
June	242.5	242.3	638.6	647.4	3660.5	2636.7	7.31	6.47	6.85	5.54
July	243.8	243.2	641.1	649.1	2681.4	2652.5	7.25	6.75	6.82	5.82
August	245.1	244.4	645.8	652.1	2698.7	2671.1	7.31	7.08	6.86	6.05
September	246.4	245.5	650.5	654.7	2716.0	2687.1	7.37	7.26	6.88	6.26
October	248.0	246.7	653.4	657.5	2734.3	2703.2	7.59	7.53	7.13	6.48
November	249.1	248.1	656.9	661.2	2754.9	2722.1	7.63	7.52	7.21	6.59
December	250.2	249.5	660.4	665.4	2775.4	2739.4	7.68	7.55	7.28	6.67
January 1987	251.8	250.7	663.9	668.6	2791.3	2758.6	7.85	7.42	7.40	6.71
February	253.1	252.1	667.4	671.8	2809.1	2777.9	7.93	7.48	7.46	6.70
March	254.4	253.0	671.1	674.2	2826.9	2794.6	7.82	7.55	7.40	6.75

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1985	11.02	11.02	9.08	9.08	7.80	7.80	7.88	7.88	9.50	9.50
November	10.55	10.55	8.54	8.54	7.77	7.77	7.81	7.81	9.50	9.50
December	10.16	10.16	8.43	8.43	7.75	7.75	7.80	7.80	9.50	9.50
January 1986	10.05	10.05	8.27	8.08	7.72	7.71	7.84	7.82	9.50	9.50
February	10.12	9.67	8.25	7.44	7.63	7.63	7.75	7.69	9.50	9.50
March	10.08	9.00	8.09	7.08	7.56	7.20	7.71	7.24	9.50	9.10
April	9.84	8.74*	7.63	7.23*	7.52	6.75*	7.67	6.73*	9.50	8.83*
May	9.73	8.46	7.52	6.94	7.28	6.43	7.48	6.48	9.19	8.50
June	9.63	8.27	7.41	6.74	7.16	6.25	7.35	6.37	9.00	8.27
July	9.44	8.47	7.26	6.88	7.11	6.48	7.29	6.53	9.00	8.00
August	9.49	8.69	7.28	7.13	7.26	6.75	7.42	6.85	9.00	8.00
September	9.53	8.81	7.35	7.22	7.42	7.09	7.63	7.18	9.00	8.46
October	9.55	8.96	7.36	7.37	7.65	7.26	7.78	7.41	9.00	8.78
November	9.58	9.02	7.40	7.51	7.72	7.55	7.95	7.64	9.00	9.00
December	9.61	9.07	7.44	7.64	7.79	7.70	8.14	7.86	9.00	9.00
January 1987	9.88	9.05	7.62	7.54	7.93	7.84	8.23	8.01	9.08	9.24
February	9.95	9.11	7.74	7.49	7.99	7.73	8.30	7.92	9.50	9.50
March	9.96	9.15	7.77	7.50	7.95	7.62	8.27	7.86	9.50	9.50

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